

Message Text

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15

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STATE/NEA/ARP/CCECIL

----- 069425

R 110201Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA

AMEMBASSY BRUSSELS

UNCLAS STATE 225084

E.O. 11652:N/A

TAGS: BEXP, SA, BE

SUBJECT:COST ESCALATION CLAUSES IN SAUDI CONTRACTS

1. DURING RECENT APPEARANCE AT MIDDLE EAST INSTITUTE IN WASHINGTON, SAUDI MINISTER OF PLANNING HISHAM NAZER REMARKED THAT SAUDI ARABIA WAS BEGINNING TO RE-EVALUATE POSITION ON FIXED PRICE CONTRACTS AND ESCALATION CLAUSES. ALSO NOTED THAT COST PLUS, AT LEAST FOR PORTIONS OF CONTRACTS, MIGHT SOMETIMES BE IN SAUDI ARABIA'S OWN INTERESTS. MIDDLE EAST ECONOMIC DIGEST OF AUGUST 20 REPORTED BELGIAN CONSORTIUM HAD WON \$730 MILLION CONTRACT

FOR HOSPITALS AND ANCILLARY FACILITIES WHICH INCLUDED INDEXATION CLAUSE AGAINST COST ESCALATION ALLOWING FOR PRICE INCREASES UP TO \$900 MILLION. CONSORTIUM LEADER REPORTED BY MEED AS EUROSISTEM HOPITALIER, A SUBSIDIARY OF SOCIETE GENE;AL DE BELGIQUE.

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2. ACTION REQUESTED: ANY DETAILS EMBASSIES JIDDA AND
BRUSSELS CAN OBTAIN RE ESCALATION CLAUSE IN BELGIAN CON-
TRACT WOULD BE HELPFUL. IN PARTICULAR, WOULD APPRECIATE
ANY INFO POSTS CAN DEVELOP AS TO WHETHER THIS IS SPECIAL
CASE OR WHETHER IT PRESAGES EVOLUTION OF SAUDI POLICY
AND CONTRACTING PRACTICE TOWARD WIDER ACCEPTANCE OF COST
ESCALATION CLAUSES. KISSINGER

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NNN

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